



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 10/19/2001

GAIN Report #EG1025

Egypt

Dairy and Products

Annual

2001

Approved by:

Thomas Pomeroy

U.S. Embassy

Prepared by:

Ali Abdi & Sherif Ibrahim

Report Highlights:

The government reduced its 45% safeguard duty as fluid milk prices rebounded. EU-Egypt partnership Agreement will offer tariff advantages to European dairy exporters when the Agreement is ratified.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Cairo [EG1], EG

Fluid Milk	2
PSD Table	2
PRODUCTION	3
Cheese	4
PSD Table	4
PRODUCTION	5
Consumption	5
Prices	6
Trade	6
Import Trade Matrix	7
Tariffs	8
Marketing Opportunities for U.S. export	8
Butter	8
PSD Table	8
Production	9
Consumption	9
Prices	10
Trade	10
Import Trade Matrix	11
Factors affecting U.S. exports	12
Tariffs	12
NON FAT DRY MILK	14
PSD Table	14
Production	14
Consumption	15
Trade	15
Import Trade Matrix	16
Factors affecting U.S Exports:	16

Fluid Milk

PSD Table						
Country:	Egypt					
Commodity:	Dairy, Milk, Fluid					
		2000		2001		2002
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2000		01/2001		01/2002
Cows In Milk	1320	1315	0	1320	0	1325
Cows Milk Production	1180	1400	0	1400	0	1580
Other Milk Production	1820	1800	0	1800	0	1820
TOTAL Production	3000	3200	0	3200	0	3400
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	3000	3200	0	3200	0	3400
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Fluid Use Dom. Consum.	1200	1280	0	1300	0	1240
Factory Use Consum.	1500	1600	0	1600	0	1850
Feed Use Dom. Consum.	300	320	0	300	0	310
TOTAL Dom. Consumption	3000	3200	0	3200	0	3400
TOTAL DISTRIBUTION	3000	3200	0	3200	0	3400
Calendar Yr. Imp. from U.S.	0		0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PRODUCTION

According to the latest information from the Egyptian Ministry of Agriculture, total Egyptian fluid milk production is currently estimated at 4 million MT. However, despite slight expansion in large existing dairy farms, most industry experts estimate, that total fluid milk production in 2001 is at 3.2 million MT or about the same as last year's level. This is mainly due to the outbreak of "three day fever" for the second year in the row which affects high producing imported cows milk production. According to the Ministry of Agriculture, the disease had much less severe impact on high producing imported cows this year because farmers were able to vaccinate their herds against the disease. However, several large dairy farms report that the impact of the disease was more substantial. Most industry experts estimate that large modern dairy facilities provide about 15% of the national commercial milk production. Most commercial dairy producers estimate that at least 10% of their milk production was lost this year as a result of the three-day fever which again swept the country June/

July 2001. Some of the producers were able to successfully vaccinate their herds against the disease, but others were not successful. This disease affects high producing imported cows and decreases their milk production by about 10%. However, for 2002, total fluid milk production is expected to increase to 3.4 million MT.

This increase in milk production is mainly due to an increase in milk prices, following the imposition of 45% safeguard duty on milk powder imports in October 2000. As a result fluid milk prices increased during the second half of 2000 from LE.60- .65 to LE.85-.90 by the end of 2000. Fluid milk prices are currently at LE 1.05 (for 3% fat milk), and could reach LE 1.20 after adding quality premiums such as fat content. The safeguard protection made milk production a more profitable industry. Existing farms are being encouraged to improve and expand their operations. As a result, some facilities are being fully integrated. It is reported that two large processing companies are establishing their own farms and one modern dairy farm is establishing its own processing facilities. Some producers are also establishing milk collection centers to expand milk purchases from small farmers. Moreover, the EU is providing LE 280 million low interest loans with 7%, 9% and 11% interest rates for one year, two years and more than two year loans. This program is managed by the Ministry of Agriculture and is directed to milk producers and processors in order to improve their operations. In April, 2001, Egyptian government reduced its safeguard duty on imported powder milk to 15%. This tariff is schedule to be reduced to 7% in April 2002 and to 3% in April 2003. Fluid milk prices are expected to remain at or near the current levels. This is primarily due to an expansion in UHT milk, pasturized milk and flavored milk production by dairy operations. Modern dairy factories are launching campaigns in the media especially in the T.V. to promote their products as clean and healthy source of milk products. Moreover, imported products are not currently price competitive due to the devaluation of the Egyptian pound and the high FOB prices.

About 50 percent of total milk production is consumed at the farm level (20% for calves weaning, 15% for manufacturing at the farm for retail and 15% for direct consumption at the farm).

Cheese

PSD Table						
Country:	Egypt					
Commodity:	Dairy, Cheese					
		2000		2001		2002
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	0	0	0	0	0	0
Production	370	380	385	385	0	387
Intra EC Imports	0	0	0	0	0	0
Other Imports	15	15	15	15	0	15
TOTAL Imports	15	15	15	15	0	15
TOTAL SUPPLY	385	395	400	400	0	402
Intra EC Exports	0	0	0	0	0	0
Other Exports	1	2	2	2	0	2
TOTAL Exports	1	2	2	2	0	2
Human Dom. Consumption	384	393	398	398	0	400
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	384	393	398	398	0	400
TOTAL Use	385	395	400	400	0	402
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	385	395	400	400	0	402
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PRODUCTION

Egypt's total annual production of Feta cheese in 2000 is estimated at about 280,000 MT, 80 percent of which is still produced by small unlicensed factories (about 5000 factories) from unpasteurized milk, despite the new standard (yet to be enforced) which prohibits the production of feta cheese from unpasteurized milk. The balance is produced by fairly modern factories. Total cheese production in 2000 is estimated at about 380,000 MT, and is expected reach about 385,000 MT in 2001. The most important type of cheese produced in Egypt is feta. Feta production, both commercial and homemade, makes up about 75 percent of the cheese produced and consumed in Egypt. The balance of production is spread among hard Romano about 50,000 MT, processed cheese about 30,000 MT, small quantity but growing mozzarella cheese and very small amount of blue and cheddar cheese. Egyptian cheese production is steadily increasing but still falls short of demand. Both the private and public sectors produce cheese. In recent years however, the public sector market share has drastically diminished to almost insignificant levels. Under the current economic reform policy, the Government of Egypt has been trying to sell the only public sector company for dairy products (Misr Dairy) to private sector

buyers. So far only one factory in Alexandria has been sold to a private sector investor.

Consumption

Total cheese consumption in 2000 is estimated at 393,000 MT, compared to 396,000 MT in 1999. Present per capita consumption of cheese is estimated at 6 Kilograms. Cheese is an important part of the Egyptian diet and many people eat some cheese at least with one meal per day. Most cheese is consumed with bread. Feta cheese is both the most popular and least expensive type of cheese available. The hard cheese known as “Romi” and processed cheese known as “Nisto” are also among the popular cheese consumed in Egypt.

In 2000, about 340 MT of imported fancy cheeses such as parmasan, Camembert and brie were consumed. Consumption of cheddar and mozzarella cheese (both natural and processed) is also rising due to the increased number of fast food(pizza and hamburger) restaurants currently operating in Egypt.

Prices

The average wholesale price for Feta cheese in 2001 (unchanged from last year) ranged between LE 6-8 per Kg, and retail prices varied between LE 8 and 12 per Kg (depending on the type). The wholesale price of locally produced Romano cheese is between LE 10.50 to 15 per Kilo and for LE 16 to 20 per Kg at the retail level. In 2001, prices of imported cheese from Europe ranged between \$3,500 and \$7,500 per MT CIF, depending on the type of cheese. Gouda and Edam cheese are currently being imported at costs of \$3,500 and \$3,200 per MT CIF, respectively, and are being retailed for about LE 20 and 24 Per Kilo, respectively. Imported fancy cheese such as Old Amsterdam, Parmesan and camembert retail between LE 70 and LE 100 per Kg.

Trade

Cheese imports will likely decrease slightly in 2001 following the aftermath of the Sept 11 of the terrorist attack in the U.S which is having a severe negative impact on the tourism sector. Upscale hotels and restaurants are an important market segment for cheese imports.

The private sector is responsible for virtually all of Egypt’s cheese imports. Netherlands, Australia and New Zealand continue to be by far, the major cheese supplier to the Egyptian market. Import demand is generated largely by the more affluent segments of the population, tourism sector, hotels and restaurants. According to Egyptian import statistics, cheese imports in 2000 are estimated at 14,625 MT. The current stagnation in imports is due to the devaluation of the Egyptian pound against the U.S Dollar, which makes imports are more expensive. Egypt’s total cheese exports in 2000 are estimated at about 2000 MT, mostly feta cheese to other Arab countries.

The Eu-Egyptian Partnership Agreements which was signed in June 24, 2001, will offer several important tariff concessions for European dairy suppliers when the Agreement is implemented. However, European cheese exporters are not expected to gain much from the Agreement. According to the Agreement (Annex to protocol 2), Egypt will only allow 2,000 MT TRQ at 50% of the basic tariff for cheese and curd products from the EU. Products in the following HS codes are included in this TRQ:

- 04061090 fresh cheese in packages over 20 Kg.

- 04062090 Grated or powdered cheese over 20 Kg.
- 04063090 Processed cheese over 20 Kg.
- 04064090 Blue veined cheese over 20 Kg.
- 04069090 other cheese over 20 Kg.

Both the EU and Egypt must ratify the agreement before it can be implemented. This is expected to occur within the next two years.

It usually takes about three weeks for imported cheese to be released by Egyptian import authorities. A great deal of that time is taken to review all of the certifications required by the Ministries of Health, Agriculture, and Economy & Trade. The shelf-life for imported cheese is between 6 months and one year depending upon the product.

Import Trade Matrix			
Country:		Units:	MT

Commodity:			
Time period:	CY		
Imports for	2000		2001
U.S.	57	U.S.	103
Others		Others	
New Zaland	5,023	Netherlands	5,473
Netherlands	4,129	Australia	3,365
France	1,914	New Zaland	2,289
Australia	1,894		
Total for Others	12960		11127
Others not listed	3,353		3,395
Grand Total	16370		14625

Tariffs

All cheeses, packaged under twenty kilograms are subjected to a 30% tariff, while all cheeses, packaged over twenty kilograms are subjected to a 10% tariff. There is an additional service fee of 3% and 1% sales tax. Most cheese imports are in 20 Kg packages.

Marketing Opportunities for U.S. export

Currently, the primary suppliers of cheese to the Egyptian market are Netherlands, New Zealand and Australia. Opportunities for U.S. cheese exports to Egypt exist but they are limited due to lack of price competitiveness. The primary factor influencing cheese imports is the price, but there is growing segment of consumers where quality comes before price consideration when buying cheese. Egyptian consumers prefer the taste and texture of the European cheddar cheese over that from the U.S. However, the availability of a DEIP program for U.S. cheddar cheese could be a significant factor in expanding U.S. cheese exports (particularly cheddar cheese for manufacturing) to Egyptian market. U.S cheese products will be slightly disadvantaged in terms of market access, when the EU-Egyptian partnership agreement comes into force, which is expected to occur within the next two years.

Butter

PSD Table						
Country:	Egypt					
Commodity:	Dairy, Butter					
		2000		2001		2002
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	0	0	0	0	0	0
Production	10	10	10	11	0	12
Intra EC Imports	0	0	0	0	0	0
Other Imports	45	49	45	50	0	50
TOTAL Imports	45	49	45	50	0	50
TOTAL SUPPLY	55	59	55	61	0	62
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Domestic Consumption	55	59	55	61	0	62
TOTAL Use	55	59	55	61	0	62
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	55	59	55	61	0	62
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Production

A very small quantity of butter is produced in Egypt on a commercial scale, currently less than 10,000 MT. The bulk of local butter production is produced by farmers for home consumption, with a small amount of this production marketed locally during weekly village markets. The absence of a significant domestic butter industry in Egypt is due to several factors, the most important being the lack of adequate refrigeration throughout the country which makes the conversion of butter to butter oil and ghee necessary. Also, there is an increasing consumer trend toward the use of palm olein ghee rather than butter.

Consumption

Egyptians prefer butter made from buffalo milk to butter made from cow milk due to its distinctive flavor. They also have a preference for unsalted vs. salted butter. Only small quantities of butter are consumed in solid form and mostly sold at up-scale supermarkets. With pita style being the main type of bread used in Egypt, butter is rarely used directly on bread. Rather, butter is mostly used as an ingredient in baked goods or in fried foods. Both locally produced and imported butter are melted and stored in the form of butter ghee. That allows it to be kept without refrigeration for as long as 9-12 months. Butter ghee is preferred to vegetable oil for cooking. As a result of relatively higher prices of imported butter oil compared to imported butter, a large number of

consumers buy butter, rather than butter oil, and convert it at home. Imported butter is available throughout the year and demand increases during holidays, especially the fasting month of Ramadan where 20-30 percent of total annual demand is consumed.

Prices

The average import price of butter is currently \$ 1,400 MT/CIF, compared to about \$ 1,500 MT/CIF during October 2000. Reportedly the decrease in import prices was mainly due to the availability of large exportable surplus in international markets. However, during the last quarter of 2000, retail price of imported butter increased significantly, especially (before Ramadan) and reached LE 190 per carton of 25 Kg, reflecting higher import costs. According to importers, the retail price of a carton of 25 Kg is currently LE 162 (less than import costs). This is compared to LE 170 during the same period in 2000. However, importers expect that retail prices for butter will improve next month when Ramadan starts.

Trade

New Zealand, Australia and the EU countries are the major suppliers of butter to Egypt. However, for the first time small amounts of butter were imported recently from Mexico, Argentina and Brazil. In 2000, total Egyptian butter imports increased to about 49,850 MT, compared to 43,000 MT in 1999. Trade sources estimate that Egyptian butter imports in 2000 included about 6,000 MT of butter oil, most of which came from New Zealand, Australia, and France. In recent years, the U.S. market share in the Egyptian butter market has been nil. The decline in U.S. market share was mainly due to the high prices of U.S. butter (in the absence of DEIP program) compared to that of competitor suppliers from New Zealand and Australia. Egypt's total butter imports from January 2001 through September 2001 are estimated at 37,000 MT. Trade sources reported that imports of butter and butter oil during 2001 will likely remain at or near the 2000 level.

Under the EU- Egypt Partnership Agreement, butter, other fats and oils derived from milk, dairy spreads (0405) and other products that fall under heading (04050090) in packages of more than 20 Kg, will enter Egypt without duty two years after the Agreement is ratified. In addition, import tariffs on European processed dairy products that fall in HS cods 0403, 04031000, 040390, 04039091, 04039099, 0405 and 04050010 will be reduced in three stages following the implementation of the Agreement:

5% reduction at basic duty two years after implementation.

10% reduction of basic duty three years after implementation.

15% reduction of basic duty four years after implementation.

Moreover, European suppliers will receive a 5000 MT tariff rate quota (TRQ) of butter and other fats (04050090) at 25% tariff reduction of basic duty from the applied tariff.

Most butter is imported in 25 Kilograms blocks and then re-packaged for sale to grocers and supermarkets. The shelf-life for both imported and locally produced butter is 18 months. For butter oil the shelf-life is two

years. According to importers, it takes between 15-21 days to obtain all of the necessary certificates to clear incoming shipments of butter and butter oil from Egyptian ports.

Import Trade Matrix			
Country:		Units:	MT
Commodity:			
Time period:	CY		
Imports for	2000		2001
U.S.	0	U.S.	0
Others		Others	
New Zealand	15,638	New Zealand	19,811
Australia	3,957	Australia	15,608
Czech	2,297	Mexico	2,349
Netherland	2,102	Poland	1,915
Brazil	1,542	Irland	1,782
		Finland	1,124
Total for Others	25536		42589
Others not listed	17,464		7,261
Grand Total	43000		49850

Factors affecting U.S. exports

The withdrawal of the Dairy Export Incentive Program (DEIP) is the main factor behind the drastic decline of U.S. butter exports to Egypt in recent years. Although Egyptian importers of dairy products have a very favorable opinion of U.S. butter quality, they indicate that price is the most important factor that influences their decision.

The EU countries maintained their butter export restitution and their market share in 2000 (reportedly about \$1,200 per MT). In addition to the problem of the lack of price competition of U.S. butter, Egyptian importers cited three other factors that lead them to import from non-U.S. origins. They include the quality of packing cartons, the high moisture content and the white color of U.S. butter, compared to the yellow color of the butter from U.S. competitors.

Tariffs

The current import tariffs on butter and other fats and oils derived from milk: are as follows:

- 1-In containers up to 20 Kg 15%
- 2-Other 5%

In addition, there is a 3% customs service fee and 1% sales tax.

NON FAT DRY MILK

PSD Table						
Country:	Egypt					
Commodity:	Dairy, Milk, Nonfat Dry					

		2000		2001		2002
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	0	0	0	0	0	0
Production	0	0	0	0	0	0
Intra EC Imports	0	0	0	0	0	0
Other Imports	30	28	20	15	0	14
TOTAL Imports	30	28	20	15	0	14
TOTAL SUPPLY	30	28	20	15	0	14
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	0	0	0	0	0	0
Human Dom. Consumption	30	28	20	15	0	14
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	30	28	20	15	0	14
TOTAL Use	30	28	20	15	0	14
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	30	28	20	15	0	14
Calendar Yr. Imp. from U.S.	0	0	0	11	0	5
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Production

Egypt has no significant milk powder production. Imported non fat dry milk (NFDM) and whey powder is used mainly for the production of feta cheese, yogurt and ice cream. There are also small quantities of NFDM and whey utilized in the production of chocolate and pastries. Limited quantities of full fat dry milk are also imported and sold for direct human consumption.

Consumption

Milk powder production is negligible in Egypt. Non fat dry milk (NFDM) is used mainly for manufacturing purposes such as feta cheese, yogurt, ice cream as well as chocolate and pastries. The consumption of milk powder declined in 2000 following the GOE's imposition of 45% safeguard duty in September 2000. The government replaced its 45% safeguard duty with reduced tariffs over the next three years. A 15% safeguard duty will be applied for the first year (4/12/01 to 4/11/02). Safeguard duties will be reduced to 7% during the second year (4/12/02-4/11/03) before finally being reduced to 3% in the third year (4/12/03-4/24/03). Increased fluid milk production is anticipated later this year and next year in order to fill the gap created by lower imports. Moreover, powdered milk import prices have increased substantially due to high international prices coupled with the devaluation of Pound against the Dollar (\$1= LE 4.25).

Trade

The private sector imports virtually all of Egypt's dry milk requirements. According to official trade data, total imports of powder milk in 2000 declined by about 48% to an estimated level of 28,000 MT, and are expected to further decline to 20,000 MT in 2001 and 2002 due to the devaluation of Egyptian pound against the U.S dollar and the general economic slow down. At the present time, U.S, Poland and Sweden are the main suppliers of milk powder to Egypt. Egyptian NFDM imports from the U.S. in 2000 decreased to 6,623 MT, compared to 11,103 MT in 1999. All of U.S. sales were under the DEIP program. Similar to other dairy products, the NFDM milk import market is very price sensitive. The average import price for non-fat dry milk from the U.S is currently about \$2,200 per MT CIF and \$ 2,090 from Poland compared to about \$2,000 and \$1,600 per MT CIF respectively, during October 2000.

The shelf-Life for imported NFDM into Egypt is two years. It normally takes between 15-21 days to release a NFDM consignment through Egyptian customs. The Current import tariffs on NFDM are as follows:

Milk and cream not containing added sugar, packages over 20 kilogram: 15% + 5 of CIF value.

Import Trade Matrix			
Country:		Units:	MT
Commodity:			
Time period:	CY		
Imports for	2000		2001
U.S.	11,103	U.S.	6,623
Others		Others	
New Zealand	3,974	Poland	2,663
France	3,851	Sweden	2,311
Denmark	3,616	France	2,302
Australia	3,315	Australia	1,783
Bulgaria	3,312	United Kingdom	1,507
Sweden	2,273		
Germany	2,273		
Netherland	1,486		
Total for Others	24100		10566
Others not listed	7,393		10,811
Grand Total	42596		28000

Factors affecting U.S Exports:

European powdered milk suppliers will gain a slight advantage over other suppliers when the E U-Egypt partnership Agreement , which was signed in June 24, 2001, is implemented. The Agreement is expected to be ratified by both the EU-15 parliaments and Egypt with the next 18-24 months. When the Agreement is ratified, Egypt will eliminate import tariffs on European products that fall in the following HS codes:

- 04021010
- 04021091
- 04022110
- 04022910
- 04022991

Most if not all packages must be in packages over 20 Kg in order to benefit from the tariff preference. Assuming that the safeguard duty will end by September 2003, the applied import tariff on NFDM will return to 5%.